

Fiscal Policies and Summary Charts

The FY 2006 - 2010 Capital Improvement Program represents the best estimate of new and existing project funding required over the next five years. The FY 2006 - FY 2010 CIP continues the scheduling of those projects included in the FY 2005 Adopted Program and ensures that the ultimate completion of high priority projects is consistent with the County's fiscal policies and guidelines. A summary table of the entire program showing the five year costs by each functional CIP area is included in Table A of this section. The entire CIP, including all program areas, totals \$7.21 billion, including \$4.98 billion in County managed projects and \$2.23 billion in Non-County managed projects. Non-County projects include the Northern Virginia Regional Park Authority program, the Water Supply Program (Fairfax Water and City of Falls Church) and the Virginia Department of Transportation (VDOT) Six Year Transportation Plan. The entire \$7.21 billion program includes, \$1.66 billion anticipated to be expended through FY 2005, \$3.84 billion scheduled over the FY 2006 – FY 2010 period, \$1.53 billion projected in the FY 2011 – FY 2015 period, and \$187 million in future years.

The development of the FY 2006 capital program has been guided by both the need for capital improvements and fiscal conditions. The five-year program is funded from General Obligation Bond sales, pay-as-you-go or current year financing from the General Fund (paydown), and other sources of financing such as federal funds, revenue bonds and sewer system revenues.

The project descriptions contained in the CIP reflect current estimates of total project costs, including land acquisition, building specifications and design. As implementation of each project nears the capital budget year, these costs are more specifically defined. In some cases, total project costs cannot be listed or identified in the CIP until certain feasibility or cost studies are completed.

FISCAL POLICIES

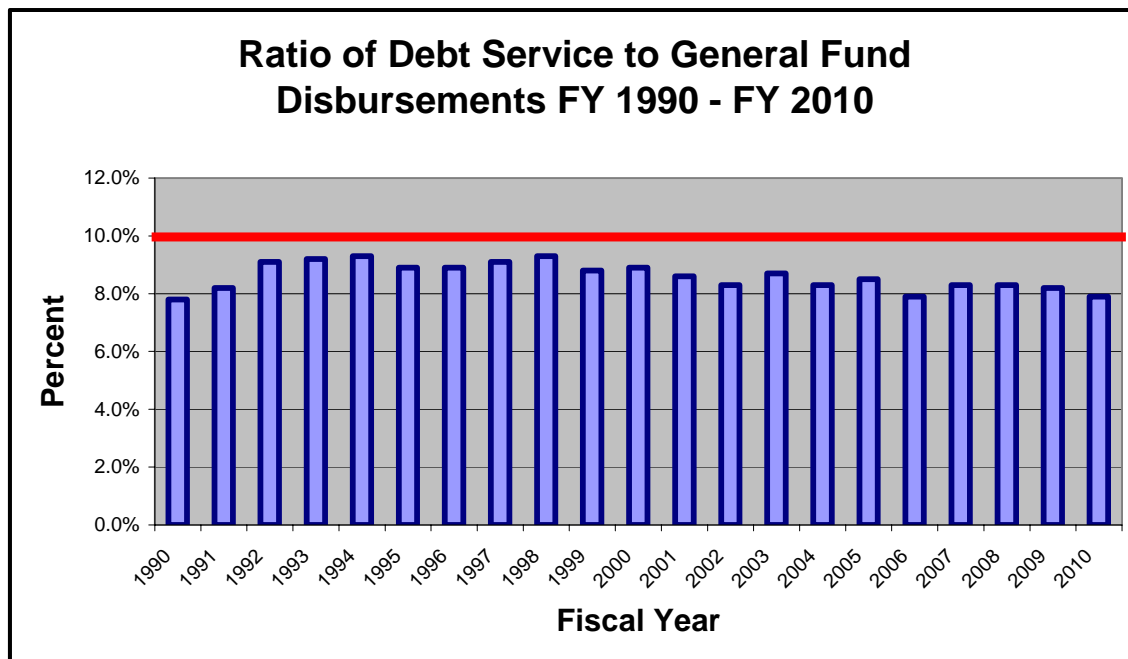
The CIP is governed by the *Ten Principles of Sound Financial Management* adopted by the Board of Supervisors and reaffirmed in FY 2003. These principles endorse a set of policies designed to contribute to the County's fiscal management and maintain the County's "triple A" bond rating. The County has maintained its superior rating in large part due to its firm adherence to these policies. The County's exceptional "triple A" bond rating gives its bonds an unusually high level of marketability and results in the County being able to borrow for needed capital improvements at low interest rates, thus realizing significant savings now and in the future for the citizens of Fairfax County. The County's fiscal policies stress the close relationship between the planning and budgetary process.

The *Ten Principles of Sound Financial Management* establish, as a financial guideline, a self-imposed limit on the level of the average annual bond sale. Actual bond issues are carefully sized with a realistic assessment of the need for funds, while remaining within the limits established by the Board of Supervisors. In addition, the actual bond sales are timed for the most opportune entry into the financial markets.

The policy guidelines enumerated in the *Ten Principles of Sound Financial Management* also express the intent of the Board of Supervisors to encourage greater industrial development in the County and to minimize the issuance of underlying indebtedness by towns and districts located within the County. It is County policy to balance the need for public facilities, as expressed by the Countywide land use plan, with the fiscal capacity of the County to provide for those needs. The CIP, submitted annually to the Board of Supervisors, is the vehicle through which the stated need for public facilities is analyzed against the County's ability to pay and stay within its self-imposed debt guidelines as articulated in the *Ten Principles of Sound Financial Management*. The CIP is supported largely through long-term borrowing that is budgeted annually in debt service or from General Fund revenues on a pay-as-you-go basis.

Several relationships between debt, expenditures, and the tax base have been developed by the municipal finance community. The two which are given particular emphasis are the ratio of expenditures for debt service to total General Fund disbursements and the ratio of net debt to the market value of taxable property. The former indicates the level of present (and future) expenditures necessary to support past borrowing while the latter ratio gives an indication of a municipality's ability to generate sufficient revenue to retire its existing (and projected) debt. These ratios have been incorporated into the *Ten Principles of Sound Financial Management* or fiscal guidelines adopted by the Board of Supervisors. Both of these guidelines - net debt to market value to be below 3 percent and debt service to General Fund disbursements to be below 10 percent - are fully recognized by the proposed 5-year CIP. In addition, the Board policy regarding sales of General Obligation Bonds and general obligation supported debt will be managed so as not to exceed a target of \$200 million per year, or \$1 billion over 5 years, with a technical limit of \$225 million in any given year. Excluded from this cap are refunding bonds, revenue bonds or other non-General Fund supported debt.

The following charts reflect the County's ability to maintain the self-imposed debt ratios outlined in the *Ten Principles of Sound Financial Management*. The ratio of debt service to General Fund disbursements remains below 10% and is projected to be maintained at this level. The debt service as a percentage of market value remains well below the 3 percent guideline.



Net Debt as a Percentage of Market Value of Taxable Property

<u>Fiscal Year Ending</u>	<u>Net Bonded Indebtedness¹</u>	<u>Estimated Market Value</u>	<u>Percentage</u>
2002	1,655,613,600	113,801,300,000	1.45%
2003	1,779,461,575	128,927,200,000	1.38%
2004	1,814,517,662	143,220,300,000	1.27%
2005 (est.)	2,066,126,762	157,577,000,000	1.31%
2006 (est.)	1,931,103,940	191,763,000,000	1.01%

¹ Beginning in FY 2003, the ratio includes outstanding Lease Revenue bonds for government center facilities in addition to General Obligation Bonds, Literary Loans and Special Revenue Bonds for Community Centers. FY 2004 includes the sale of \$183.75 million of new general obligation bonds and adjustments for the sale of refunding bonds on March 31, 2004. Projections for FY 2005 include the sale of \$185.4 million of new tax supported debt on September 23, 2004. Projections for FY 2006 include a proposed sale of \$210.65 million for fall 2005.

Ten Principles of Sound Financial Management

April 2002

1. **Planning Policy.** The planning system in the County will continue as a dynamic process, which is synchronized with the capital improvement program, capital budget and operating budget. The County's land use plans shall not be allowed to become static. There will continue to be periodic reviews of the plans at least every five years. Small area plans shall not be modified without consideration of contiguous plans. The Capital Improvement Program will be structured to implement plans for new and expanded capital facilities as contained in the County's Comprehensive Plan and other facility plans. The Capital Improvement Program will also include support for periodic reinvestment in aging capital and technology infrastructure sufficient to ensure no loss of service and continued safety of operation.
2. **Annual Budget Plans.** Annual budgets shall continue to show fiscal restraint. Annual budgets will be balanced between projected total funds available and total disbursements including established reserves.
 - a. A managed reserve shall be maintained in the General Fund at a level sufficient to provide for temporary financing of critical unforeseen disbursements of a catastrophic emergency nature. The reserve will be maintained at a level of not less than two percent of total Combined General Fund disbursements in any given fiscal year.
 - b. A Revenue Stabilization Fund (RSF) shall be maintained in addition to the managed reserve at a level sufficient to permit orderly adjustment to changes resulting from curtailment of revenue. The ultimate target level for the RSF will be three percent of total General Fund Disbursements in any given fiscal year. After an initial deposit, this level may be achieved by incremental additions over many years. Use of the RSF should only occur in times of severe economic stress. Accordingly, a withdrawal from the RSF will not be made unless the projected revenues reflect a decrease of more than 1.5 percent from the current year estimate and any such withdrawal may not exceed one half of the RSF fund balance in that year. Until the target level is reached, the Board of Supervisors will allocate to the RSF a minimum of 40 percent of non-recurring balances identified at quarterly reviews.
 - c. Budgetary adjustments which propose to use available general funds identified at quarterly reviews should be minimized to address only critical issues. The use of non-recurring funds should only be directed to capital expenditures to the extent possible.
 - d. The budget shall include funds for cyclic and scheduled replacement or rehabilitation of equipment and other property in order to minimize disruption of budgetary planning from irregularly scheduled monetary demands.
3. **Cash Balances.** It is imperative that positive cash balances exist in the General Fund at the end of each fiscal year. If an operating deficit appears to be forthcoming in the current fiscal year wherein total disbursements will exceed the total funds available, the Board will take appropriate action to balance revenues and expenditures as necessary so as to end each fiscal year with a positive cash balance.
4. **Debt Ratios.** The County's debt ratios shall be maintained at the following levels:
 - a. Net debt as a percentage of estimated market value shall be less than 3 percent.
 - b. Debt service expenditures as a percentage of General Fund disbursements shall not exceed 10 percent. The County will continue to emphasize pay-as-you-go capital financing. Financing capital projects from current revenues is indicative of the County's intent to use purposeful restraint in incurring long-term debt.
 - c. For planning purposes annual bond sales shall be structured such that the County's debt burden shall not exceed the 3 and 10 percent limits. To that end sales of general obligation bonds and general obligation supported debt will be managed so as not to exceed a target of \$200 million per year, or \$1 billion over 5 years, with a technical limit of \$225 million in any given year. Excluded from this cap are refunding bonds, revenue bonds or other non-General Fund supported debt.
 - d. For purposes of this principle, debt of the General Fund incurred subject to annual appropriation shall be treated on a par with general obligation debt and included in the calculation of debt ratio limits. Excluded from the cap are leases secured by equipment, operating leases, and capital leases with no net impact to the General Fund.

Ten Principles of Sound Financial Management

April 2002 (continued)

- e. For purposes of this principle, payments for equipment or other business property, except real estate, purchased through long-term lease-purchase payment plans secured by the equipment will be considered to be operating expenses of the County. Annual General Fund payments for such leases shall not exceed 3 percent of annual General Fund disbursements, net of the School transfer. Annual equipment lease-purchase payments by the Schools and other governmental entities of the County should not exceed 3 percent of their respective disbursements.
5. **Cash Management.** The County's cash management policies shall reflect a primary focus of ensuring the safety of public assets while maintaining needed liquidity and achieving a favorable return on investment. These policies have been certified by external professional review as fully conforming to the recognized best practices in the industry. As an essential element of a sound and professional financial management process, the policies and practices of this system shall receive the continued support of all County agencies and component units.
6. **Internal Controls.** A comprehensive system of financial internal controls shall be maintained in order to protect the County's assets and sustain the integrity of the County's financial systems. Managers at all levels shall be responsible for implementing sound controls and for regularly monitoring and measuring their effectiveness.
7. **Performance Measurement.** To ensure Fairfax County remains a high performing organization all efforts shall be made to improve the productivity of the County's programs and its employees through performance measurement. The County is committed to continuous improvement of productivity and service through analysis and measurement of actual performance objectives and customer feedback.
8. **Reducing Duplication.** A continuing effort shall be made to reduce duplicative functions within the County government and its autonomous and semi-autonomous agencies, particularly those that receive appropriations from the General Fund. To that end, business process redesign and reorganization will be encouraged whenever increased efficiency or effectiveness can be demonstrated.
9. **Underlying Debt and Moral Obligations.** The proliferation of debt related to but not directly supported by the County's General Fund shall be closely monitored and controlled to the extent possible, including revenue bonds of agencies supported by the General Fund, the use of the County's moral obligation and underlying debt.
 - a. A moral obligation exists when the Board of Supervisors has made a commitment to support the debt of another jurisdiction to prevent a potential default, and the County is not otherwise responsible or obligated to pay the annual debt service. The County's moral obligation will be authorized only under the most controlled circumstances and secured by extremely tight covenants to protect the credit of the County. The County's moral obligation shall only be used to enhance the credit worthiness of an agency of the County or regional partnership for an essential project, and only after the most stringent safeguards have been employed to reduce the risk and protect the financial integrity of the County.
 - b. Underlying debt includes tax supported debt issued by towns or districts in the County, which debt is not an obligation of the County, but nevertheless adds to the debt burden of the taxpayers within those jurisdictions in the County. The issuance of underlying debt, insofar as it is under the control of the Board of Supervisors, will be carefully analyzed for fiscal soundness, the additional burden placed on taxpayers and the potential risk to the General Fund for any explicit or implicit moral obligation.
10. **Diversified Economy.** Fairfax County must continue to diversify its economic base by encouraging commercial and, in particular, industrial employment and associated revenues. Such business and industry must be in accord with the plans and ordinances of the County.

FINANCING THE CIP

There are a number of funding sources available for financing the proposed capital program. These range from direct County contributions such as the General Fund and bond sale proceeds to state and federal grants. In the CIP project tables the following major funding sources are identified:

SOURCES OF FUNDING

B	Payments from the proceeds of the sale of General Obligation Bonds. These bonds must be authorized at referendum by County voters and pledge the full faith and credit of the County to their repayment.
G	Direct payment from current County revenues; General Fund.
S/F	Payments from state or federal grants-in-aid for specific projects (waste water treatment facilities, Community Development Block Grants) or direct state or federal participation (VDOT Highway Program).
TXB	Tax Exempt Bonds
X	Other sources of funding, such as a reimbursable contribution or a gift.
U	Undetermined, funding to be identified.

THE BOND PROGRAM

Over the past several years, the County has developed a policy of funding major facility projects through the sale of General Obligation Bonds. This allows the cost of the facility to be spread over a number of years so that each generation of taxpayers contributes a proportionate share for the use of these long-term investments. By selectively utilizing bond financing, the County has also been able to benefit from its preferred borrowing status to minimize the impacts of inflation on construction costs. Table B in this section includes the current bond referenda approved by the voters for specific functional areas.

A debt capacity chart, Table C, includes the projected bond sales over the five year period. The total program is \$65.90 million above the target. This level of sales does not exceed the 10 percent limit on debt service as a percentage of General Fund disbursements. A debt capacity analysis and review of bond sales is conducted every year in conjunction with the CIP.

For planning purposes, potential future bond referenda are reflected in Table D, County Bond Referendum Capacity and Table E, School Bond Referendum Capacity. County Bond referenda are identified every other year beginning in Fall 2004 through Fall 2012. School bond referenda of \$350 million are identified every other year beginning in Fall 2005 through Fall 2013. These tables were developed as a planning tool to assess the County's capacity for new debt and to more clearly identify the County's ability to meet capital needs through the bond program. This tool will enable the County to establish a regular schedule for new construction and capital renewal as essential facilities such as fire and police stations age. As shown in Table F, the 20-year History of Referenda, past County referenda have focused primarily on new construction.

Referenda proposed for 2006 include Public Safety, Commercial Revitalization, and Neighborhood Improvement projects. Future referenda include proposals for regular funding for parks every 4 years, additional funding for transportation, and regularly scheduled proposals every other year for renewal of other County infrastructure and facilities. The projected capacity for new referenda will be reviewed and updated each year.

PAYDOWN OR PAY-AS-YOU-GO FINANCING

Although a number of options are available for financing the proposed capital improvement program, including bond proceeds and grants, it is the policy of the County to balance the use of the funding sources against the ability to utilize current revenue or pay-as-you-go financing. While major capital facility projects are funded through the sale of general obligation bonds, the Board of Supervisors, through its *Ten Principles of Sound Financial Management*, continues to emphasize the importance of maintaining a balance between pay-as-you-go financing and bond financing for capital projects. Financing capital projects from current revenues indicates the County's intent to restrain long-term debt. No explicit level or percentage has been adopted for capital projects from current revenues as a portion of either overall capital costs or of the total operating budget. The decision for using current revenues to fund a capital project is based on the merits of the particular project. It is the Board of Supervisors' policy that nonrecurring revenues should not be used for recurring expenditures.

In FY 2006, an amount of \$60,950,900 has been included for the Advertised Capital Paydown Program. Table G reflects the FY 2006 Advertised Paydown program with projected funding throughout the CIP period. In general the FY 2006 Paydown Program includes funding to provide for the most critical projects including, but not limited to, the following:

- ✓ General County Capital Renewal to address priority requirements at County facilities including: HVAC/electrical replacement; roof repair and waterproofing; parking lot resurfacing; fire alarm replacement; emergency generator replacement, miscellaneous building repairs, and on-going implementation of ADA compliance at County facilities.
- ✓ Park maintenance at non-revenue supported Park facilities to fund such items as: repairs/replacements to roofs, electrical and lighting systems, security and fire alarms, sprinklers, and HVAC equipment; grounds maintenance; minor routine preventive maintenance; and ongoing implementation of ADA compliance at Park facilities.
- ✓ Athletic Field maintenance in order to maintain quality athletic fields at acceptable standards, improve safety standards, improve playing conditions and increase user satisfaction. Maintenance includes: field lighting, fencing, irrigation, dugout covers, infield dirt, aerification and seeding.
- ✓ Commercial Revitalization efforts in the Baileys Crossroads/Seven Corners, Annandale, Richmond Highway, Lake Anne, Merrifield, Springfield, and McLean areas.
- ✓ Storm drainage maintenance and emergency repairs including: environmental monitoring; dam safety inspections and improvements; annual emergency drainage repairs throughout the County; and support of the Virginia Pollutant Discharge Elimination System (VPDES) Municipal Separate Storm Sewer System (MS4) discharge permit for water quality testing, watershed master planning, improvement programs, and development of the GIS-based storm sewer system inventory. In addition, FY 2006 includes significant funding for prioritized stormwater capital improvements in the County's stormwater system.
- ✓ Funding for the Public Safety and Transportation and Operations Center (PSTOC) to support the remaining unfunded technology requirements at the new facility.
- ✓ Funding to accelerate the renovation and expansion of the Mott Community Center due to increased programming needs, changing demographics of the community served by the center, designation of the center for a new computer clubhouse, and the anticipated development of the Popes Head Park site.
- ✓ The continuation of funding to address property management and development, as well as continued asbestos mitigation efforts, at the Laurel Hill property.
- ✓ A new initiative for Affordable/Workforce Housing developed by the Affordable Housing Preservation Action Committee and presented for approval to the FCRHA and the Board of Supervisors.
- ✓ Additional paydown projects include annual contributions, payments and contractual obligations such as the County's annual contribution to the Northern Virginia Community College capital program.